

AMENDED IN ASSEMBLY MAY 23, 2008

AMENDED IN ASSEMBLY MARCH 28, 2008

CALIFORNIA LEGISLATURE—2007–08 REGULAR SESSION

## ASSEMBLY BILL

**No. 2123**

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**Introduced by Assembly Member Lieu**

**(Coauthors: Assembly Members Brownley, Coto, De Leon, Dymally,  
Garcia, Garrick, and Hancock Hancock, and Ma)**

**(Coauthor: Senator Cedillo Coauthors: Senators Cedillo and Padilla)**

February 20, 2008

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An act to add Division 22 (commencing with Section 70000) to the Financial Code, relating to financial literacy, *and making an appropriation therefor.*

### LEGISLATIVE COUNSEL'S DIGEST

AB 2123, as amended, Lieu. California Financial Literacy Initiative.

The California Constitution requires the Legislature to encourage the promotion of intellectual improvement. Existing law regulates financial institutions and their interactions with the public. Existing law recognizes the existence of specialized financial institutions that provide services, including, but not limited to, financial literacy training, to underserved communities.

This bill would establish the California Financial Literacy Initiative for the purpose of ~~improving financial literacy by offering instructional materials to citizens of California~~ *providing resources and instruction to Californians*. The initiative would be administered by the Controller who would be authorized to provide, among other things, an online library of financial literacy resources and materials to be made available for all Californians. The Controller would be authorized to convene a

Financial Literacy Advisory Committee that may include representatives of the office of the Superintendent of Public Instruction, the office of the Treasurer, the Department of Corporations, the Department of Financial Institutions, the Department of Consumer Affairs, the Department of Finance, a representative from the financial services industry, a representative from the nonprofit sector associated with consumer advocacy, and others invited by the Controller. The bill would require the Controller, as resources are available, to establish and oversee the California Financial Services Corps, which would provide certain financial information to ~~low- and middle-income Californians who do not have financial advisers~~ *persons seeking personalized attention from individuals with financial literacy training*. The bill would establish the California Financial Literacy Fund in the State Treasury and would authorize the Controller to deposit donations ~~from nonprofit entities~~ *into the fund from entities with no direct financial interest in any financial products*. The bill would *continuously appropriate moneys in the fund to the Controller and would authorize those moneys in the fund, upon appropriation by the Legislature,* to be used for the purpose of establishing the services specified in the initiative.

The bill would require the Controller, beginning in 2010, to report to the Legislature annually on or before August 30 on the implementation of the initiative, as specified.

The bill would require specified state agencies to use existing resources for the initiative if those agencies elect to participate.

Vote: majority. Appropriation: ~~no~~-yes. Fiscal committee: yes. State-mandated local program: no.

*The people of the State of California do enact as follows:*

- 1 SECTION 1. The Legislature finds and declares all of the
- 2 following:
- 3 (a) *While California currently has no official statewide strategy*
- 4 *for improving Californians' financial literacy, the need for*
- 5 *coordinated state investment in financial literacy solutions is*
- 6 *increasingly evident. According to a national survey conducted in*
- 7 *the fall of 2007, nearly half of homeowners with adjustable rate*
- 8 *mortgages admitted that they did not know how their adjustable*
- 9 *rate mortgages will adjust or reset and nearly 75 percent did not*
- 10 *know how much their monthly mortgage payments will increase*

1 *when they do adjust or reset. Mortgage “resetting” of adjustable*  
2 *rate mortgages is expected to peak in the fall of 2008.*

3 *(b) As the state’s chief financial officer responsible for auditing*  
4 *state expenditures and balancing the state’s checkbook, as well*  
5 *as being the chair or member of 72 state boards and commissions,*  
6 *including two of the nation’s largest pension investment funds, the*  
7 *Controller has the experience and duty to lead an initiative to grow*  
8 *the state’s economy by bettering Californians’ fiscal literacy.*

9 *(c) Many states have already recognized the importance of*  
10 *financial literacy. Delaware, Maine, Pennsylvania, South Carolina,*  
11 *Utah, West Virginia, and Wisconsin have all created financial*  
12 *literacy programs to improve their citizens’ fiscal health.*

13 ~~(a)~~

14 *(d) A recent survey by Dartmouth College and Harvard*  
15 *University researchers found that only 35 percent of respondents*  
16 *were able to correctly estimate how interest compounds over time,*  
17 *more than half of respondents did not understand how minimum*  
18 *payments are calculated and applied to a principal balance, and*  
19 *almost none of the respondents understood the financial difference*  
20 *between paying in monthly installments versus one lump sum at*  
21 *the end of a certain time period.*

22 ~~*(b) The average American household consumer credit card debt*~~  
23 ~~*among low- and moderate-income households is eight thousand*~~  
24 ~~*six hundred fifty dollars (\$8,650).*~~

25 ~~*(e) High*~~

26 *(e) California high school seniors taking part in a national survey*  
27 *of financial knowledge scored an average of 52.4 percent, which*  
28 ~~*is a failing grade. 44 percent, four percentage points lower than*~~  
29 ~~*the national average.*~~

30 ~~*(d)*~~

31 *(f) There were 164 million credit card holders in the United*  
32 *States in 2003 and that number is projected to grow to 176 million*  
33 *in 2008. These same Americans own approximately 1.5 billion*  
34 *cards, which is an average of nearly nine credit cards issued per*  
35 *credit card holder.*

36 ~~*(g) The average American household consumer credit card debt*~~  
37 ~~*among low- and moderate-income households is eight thousand*~~  
38 ~~*six hundred fifty dollars (\$8,650).*~~

39 ~~*(e)*~~

1 (h) More than 40 percent of American families spend more than  
2 they earn.

3 ~~(f) California does not have an official statewide policy or~~  
4 ~~education plan for teaching of financial literacy.~~

5 ~~(g)~~

6 (i) Americans 25 to 34 years of age now have the second highest  
7 rate of bankruptcy, just after those 35 to 44 years of age. The  
8 bankruptcy rate among those individuals between 25 to 34 years  
9 of age increased between 1991 and 2001, indicating that those  
10 individuals were more likely to file bankruptcy as young adults  
11 than were young baby boomers at the same age.

12 ~~(h)~~

13 (j) The national annual savings rate has declined from 9 percent  
14 in the 1980s to approximately -0.4 percent of after-tax household  
15 income, a level not seen since the Great Depression.

16 ~~(i)~~

17 (k) Less than 20 percent of United States workers are now in  
18 employer pension plans and nearly 28 million United States  
19 households, 37 percent of the total, do not have a retirement savings  
20 account of any kind.

21 ~~(j) California does not have an official statewide policy for the~~  
22 ~~teaching of financial literacy.~~

23 ~~(k) Many groups are dedicated to increasing the financial literacy~~  
24 ~~of Americans and a broad range of quality personal finance~~  
25 ~~instructional materials and curricula have been created for this~~  
26 ~~purpose.~~

27 ~~(l) Financial literacy materials and resources exist in many forms~~  
28 ~~but are not organized or collected in a systematic manner.~~

29 ~~(m) As the 2007 subprime mortgage crisis demonstrates, there~~  
30 ~~is a severe shortage of affordable financial advisers to counsel~~  
31 ~~middle- and lower-income Californians and to advise them on how~~  
32 ~~to plan for a financial crisis.~~

33 (l) *Fifty-five percent of American workers do not know how*  
34 *much they will need to save to make their retirement dreams a*  
35 *reality.*

36 (m) *Financial literacy education is an essential ingredient for*  
37 *creating an active citizenry able to understand how the state's*  
38 *budget decisions will affect their personal lives.*

39 (n) *The growing negative economic effects of financial illiteracy*  
40 *has spurred the nonprofit and private sector to dramatically*

1 *increase their investment in financial education and counseling,*  
2 *and to build more partnerships within and between the two sectors.*  
3 *At this crucial economic time it is imperative that the state*  
4 *consolidate its financial literacy resources and seek ways to*  
5 *reinforce efforts in the nonprofit and private sectors.*

6 SEC. 2. Division 22 (commencing with Section 70000) is added  
7 to the Financial Code, to read:

8  
9 DIVISION 22. CALIFORNIA FINANCIAL LITERACY  
10 INITIATIVE

11  
12 70000. For purposes of this division, “initiative” means the  
13 California Financial Literacy Initiative.

14 70001. (a) The California Financial Literacy Initiative is hereby  
15 established as a program for improving financial literacy by  
16 ~~offering instructional materials to citizens of California.~~ *providing*  
17 *resources and instruction to Californians.*

18 (b) The initiative shall be administered by the Controller who  
19 shall establish an Office of Financial Literacy Advocate for these  
20 purposes to be funded as resources are available.

21 70002. (a) ~~The goals for the initiative are to accomplish both~~  
22 ~~of the following:~~

23 ~~(1) Provide~~ *primary goal of the initiative shall be to utilize*  
24 *high-quality instructional materials and training already*  
25 *established by nonprofit and private sector entities to provide*  
26 *Californians with the tools they will need to manage financial*  
27 *commitments associated with borrowing, credit, and other*  
28 *important financial decisions.*

29 ~~(2) Promote high-quality programs that provide instruction on~~  
30 ~~pertinent financial literacy issues as determined by the Controller.~~

31 (b) ~~The~~ *To achieve this goal, the* Controller may do ~~all of the~~  
32 following:

33 ~~(1) Provide~~ *Organize and provide* an online library ~~of and~~  
34 *reference to* financial literacy resources ~~and materials to be made~~  
35 *available for all Californians.*

36 (2) Coordinate and collaborate with financial institutions,  
37 financial services providers, ~~and nonprofit community~~  
38 ~~organizations in collecting and distributing financial literacy~~  
39 ~~materials.~~

~~(3) Organize financial literacy materials, to be made available in a manner that ensures that materials are accessible to Californians with only a basic financial education; state and local governments, and nonprofit organizations in collecting, creating, and distributing financial literacy materials and developing innovative solutions to improving financial literacy.~~

70003. (a) The Controller may convene a Financial Literacy Advisory Committee to *develop strategies to improve financial literacy* and review materials that can be provided on the Internet in a centralized location for purposes of ensuring that Californians have access to appropriate financial literacy resources; *and other accessible locations.*

(b) The Financial Literacy Advisory Committee shall be chaired by the Controller and may include representatives of the office of the Superintendent of Public Instruction, the office of the Treasurer, *the California State Library*, the Department of Corporations, the Department of Financial Institutions, the Department of Consumer Affairs, the Department of Finance, a representative from the financial services industry, a representative from the nonprofit sector associated with consumer advocacy, and others ~~to be~~ invited by the Controller.

70004. As resources are available, the Controller shall establish and operate a financial literacy ~~information toll-free telephone number and Internet Web site to provide basic financial information on the following~~ *clearinghouse for information through an Internet Web site to include information on these and related subjects:* financial credit scores, credit card applications, bank account applications, simple and compound interest calculations, *retirement calculations, and mortgage* and interest rates. The Controller shall *attempt to* provide this service in the following languages: English, Spanish, Chinese, Tagalog, Vietnamese, and Korean. *English and the five languages other than English most widely spoken by Californians in their homes, according to the most recent United States Census data.*

70005. ~~Financial institutions, financial services providers, nonprofit community organizations, and other entities whose materials or resources are included in the online library provided pursuant to paragraph (1) of subdivision (b) of Section 70002 may include in those materials a means of collecting data, including, but not limited to, all of the following:~~

1 ~~(a) The estimated number of users.~~

2 ~~(b) The age of the user.~~

3 ~~(c) Any other relevant information that would aid in the purpose~~  
4 ~~of furthering financial literacy pursuant to this division.~~

5 70006. ~~(a) As resources are available, the Controller shall~~  
6 ~~establish and oversee the California Financial Services Corps. The~~  
7 ~~purpose of the California Financial Services Corps shall be to~~  
8 ~~provide clear, professional, and objective financial information;~~  
9 ~~without promotion of any financial products, to low- or~~  
10 ~~middle-income Californians who are not currently using a financial~~  
11 ~~adviser. Volunteers with professional certifications in financial~~  
12 ~~planning or comparable professional training shall be invited to~~  
13 ~~serve in the corps. Financial information shall pertain to the~~  
14 ~~following major consumer purchases: automobile, home, or any~~  
15 ~~other loan or investment not to exceed ten thousand dollars~~  
16 ~~(\$10,000).~~

17 ~~(b) The Controller shall attempt to staff the California Financial~~  
18 ~~Services Corps with individuals who speak the following~~  
19 ~~languages: English, Spanish, Chinese, Tagalog, Vietnamese, and~~  
20 ~~Korean. to persons seeking personalized attention from individuals~~  
21 ~~with financial literacy training or professional background.~~

22 70007. The California Financial Literacy Fund is hereby  
23 established in the State Treasury *and is continuously appropriated*  
24 *to the Controller.* The Controller may accept donations from  
25 ~~nonprofit entities entities with no direct financial interest in any~~  
26 ~~financial products~~ and deposit those donations into the fund, that;  
27 ~~upon appropriation by the Legislature,~~ may be used for the purpose  
28 of establishing the services described in this division. ~~The~~  
29 ~~California Financial Literacy Fund shall be subject to annual audit.~~

30 70008. Beginning in 2010, the Controller shall provide to the  
31 respective chairpersons of Assembly Committee on Banking and  
32 Finance and the Senate Committee on Banking, Finance and  
33 Insurance an annual report on the ~~Controller's California Financial~~  
34 ~~Literacy Initiative.~~ This report shall include, but not be limited to,  
35 the *approximate* number of persons assisted by the financial  
36 literacy information toll-free telephone number and Internet Web  
37 site, a description of the inquiries made to those services *Web site,*  
38 steps taken to partner with the financial services community and  
39 governmental and nongovernmental stakeholders to improve  
40 Californians' financial literacy, a description of the basic financial

1 skills information available on the Controller's *Internet* Web site  
2 and plans to improve that clearinghouse of information, any  
3 nonstate funding received for purposes of this initiative, and any  
4 additional recommendations to enhance financial literacy in  
5 California. This report shall be submitted no later than August 30  
6 of each year.

7 70009. It is the intent of the Legislature that state agencies  
8 involved in the Financial Literacy Advisory Committee shall  
9 actively support the initiative. State agencies in the executive  
10 branch of government, including boards, commissions, and  
11 constitutional officers, shall use existing resources for the initiative  
12 if they elect to participate.